

Audited Financial Statements

Clinton-Macomb Public Library

Year Ended November 30, 2005
With Report of Independent Auditors

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Clinton-Macomb Public Library	County Macomb
Fiscal Year End 11/30/05	Opinion Date March 1, 2006	Date Audit Report Submitted to State 5/30/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Andrews, Hooper & Pavlik PLC		Telephone Number 248-340-6050	
Street Address 3201 University Drive Suite 350		City Auburn Hills	State Mi
		Zip 48326	
Authorizing CPA Signature 		Printed Name ROGER E HITCHCOCK	License Number 1101014461

Clinton-Macomb Public Library

Audited Financial Statements

Year Ended November 30, 2005

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ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

To the Library Officials
Clinton-Macomb Public Library
Clinton Township, Michigan

We have audited the basic financial statements of the Clinton-Macomb Public Library (the Library) as of November 30, 2005, and for the year ended as listed in the table of contents. These basic financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Clinton-Macomb Public Library, as of November 30, 2005, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan
March 1, 2006

Management's Discussion and Analysis

The Management's Discussion and Analysis portion of the Annual Financial Report of Clinton-Macomb Public Library (the Library) provides an overview of the Library's financial performance for the fiscal year ended November 30, 2005. It should be read in combination with the Library's audited financial statements beginning on page 6.

FINANCIAL HIGHLIGHTS				
	Year ended November 30,		Change	Percentage Change
	2005	2004		
Total Revenues	\$ 5,576,750	\$ 5,126,753	\$ 449,997	8.8%
Operating Expenses	\$ 4,635,451	\$ 4,486,576	\$ 148,875	3.3%
Total Expenses	\$ 7,076,782	\$ 6,875,933	\$ 200,849	2.9%
Change in Net Assets	\$ (1,500,032)	\$ (1,749,180)	\$ 249,148	-14.2%
Unrestricted Net Assets	\$ 856,248	\$ 619,834	\$ 236,414	38.1%
Circulation	1,403,348	1,390,852	12,496	0.9%
Library Card Users	84,174	71,388	12,786	17.9%
Collection	282,923	259,101	23,822	9.2%

The year 2005 completed the second full year of operations for the new main library building, which opened in October 2003. The Library's three branches offer approximately 105,000 square feet of library service area to patrons living or working in Clinton and Macomb Townships. As the community continues to become increasingly familiar with the materials and services available at the Library, the number of library card users continues to grow at a brisk rate as illustrated in the table above.

The second year in the new main building also resulted in the stabilization of operating expenses, as measures were undertaken to control expenses wherever possible. This effort yielded a moderate increase of 3.3% in total operating expenses when compared to the prior year. Revenues, principally property tax receipts, increased by 8.8%. Total expenses, which include depreciation on the Library's capital assets, increased 2.9% in comparison to 2004.

A more detailed analysis of the Library's financial results follows later in this report.

Using this Annual Report

This annual report consists of three parts – *Management's Discussion and Analysis*, *Basic Financial Statements*, and *Required Supplementary Information*. The Basic Financial Statements include information that presents two different views of the Library:

- The first three columns of the financial statements include information on the Library's General Fund and Debt Service Fund under the modified accrual method. These *fund financial statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's overall financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how Library services were financed in the short term as well as what remains for future spending.

Management's Discussion and Analysis (Continued)

The adjustments column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method. A reconciliation explaining the adjustments between the fund financial statements and the government-wide financial statements is presented in Note 10 of the Audited Financial Statements on Page 18 of this financial report.

Government-wide Financial Analysis

This analysis focuses on the net assets (Table I) and the changes in net assets (Table II) of the Library.

Net assets of the Library decreased by 20.5% during the year, to \$5,804,612 at November 30, 2005. Unrestricted net assets (those that can be used to finance day-to-day activities without constraints) were \$856,248 at November 30, 2005, as compared to \$619,834 at November 30, 2004, an increase of 38.1%. As of November 30, 2005, unrestricted net assets were 18.5% of operating expenses (i.e., excluding depreciation). The Library intends to gradually increase unrestricted net assets over the long term to approximately 50% (i.e., six months) of operating expenses. This balance will provide for working capital needs and funds for capital improvements and maintenance in future years.

Table I			
Net Assets			
	<u>11/30/2005</u>	<u>11/30/2004</u>	<u>Percentage Change</u>
Assets:			
Cash and cash equivalents	\$ 875,013	\$ 791,994	10.5 %
Certificates of deposit	200,000	-	n/m
Other current assets	123,104	198,155	(37.9)
Capital and other non-current assets	20,474,383	22,463,867	(8.9)
Total assets	21,672,500	23,454,016	(7.6)
Liabilities:			
Current liabilities	542,914	511,680	6.1
Long term liabilities	15,324,974	15,637,692	(2.0)
Total liabilities	15,867,888	16,149,372	(1.7)
Net Assets:			
Invested in capital assets, net of related debt	4,947,769	6,684,604	(26.0)
Restricted for debt service payments	595	206	188.8
Unrestricted	856,248	619,834	38.1
Total net assets	\$ 5,804,612	\$ 7,304,644	(20.5) %

n/m-not meaningful

Net assets invested in capital assets, net of related debt, decreased by 26.0% because the depreciation of the Library's capital assets (the large majority of which were additions in 2003) exceeded the total of new capital asset additions and the amount of long-term debt repaid during the year. This trend will continue because a significant portion of the 2003 capital asset additions were invested in new furnishings and equipment as part of the construction of the new main library, which are depreciated over a shorter period of time (5-15 years) than the life of the related bond debt (25 years).

Management's Discussion and Analysis (Continued)

Table II				
Changes in Net Assets				
	Governmental Activities		Percentage Change	
	Fiscal 2005	Fiscal 2004		
Program Revenues				
Property taxes	\$ 4,814,479	\$ 4,504,343	6.9	%
Intergovernmental - state aid	123,105	123,507	(0.3)	
Penal fines	208,083	148,525	40.1	
Investment income	73,644	40,471	82.0	
Library fines and fees	195,254	145,470	34.2	
Contributions and donations	64,001	76,217	(16.0)	
Other revenue	98,184	88,220	11.3	
Total revenues	5,576,750	5,126,753	8.8	
Program Expenses:				
Salaries and benefits	2,480,431	2,389,057	3.8	
Operating supplies	69,366	78,839	(12.0)	
Facilities expenses	883,219	866,093	2.0	
Equipment	18,173	10,268	77.0	
Professional fees	111,829	106,613	4.9	
Telecommunications	46,404	50,386	(7.9)	
Programs - youth & adult	13,292	12,932	2.8	
Periodicals	18,460	6,178	198.8	
Electronic subscriptions	113,710	63,877	78.0	
Staff development	42,426	44,360	(4.4)	
Publicity	68,097	79,749	(14.6)	
Miscellaneous	27,194	26,424	2.9	
Interest on long-term debt	742,850	751,800	(1.2)	
Subtotal-operating expenses	4,635,451	4,486,576	3.3	
Depreciation	2,441,331	2,389,357	2.2	
Total expenses	7,076,782	6,875,933	2.9	
Increase/(decrease) in net assets	(1,500,032)	(1,749,180)	(14.2)	
Beginning net assets	7,304,644	9,053,824	(19.3)	
Ending net assets	\$ 5,804,612	\$ 7,304,644	(20.5) %	

As illustrated in Table II, revenues for the Library increased by 8.8% in fiscal year 2005. Property tax revenues increased by 6.9%, primarily due to growth in the district. There was no change in the level of state aid in 2005 when compared to 2004. Penal fines are the fines that the court assesses for state criminal violations and civil infractions. The Constitution of the State of Michigan requires that these fines be used to support public libraries. The increase of 40.1% in penal fines was partially due to a new motor vehicle fine instituted by the State. Investment income increased 82.0% as a result of the increase in interest rates available on certificates of deposit and other interest-bearing accounts. Library fines and fees, which consist primarily of library late fines and copy machine fees, increased significantly. This reflects the continually increasing circulation rates enjoyed since the new main library building opened in late 2003 and a stricter fine-waiving policy.

Salary and benefit costs of \$2,480,431 are the most significant expense to the Library, accounting for 53.5% of total operating expenses in 2005, a negligible increase compared to 53.2% in 2004. Facilities expenses, including utilities, insurance, maintenance and rent, increased only 2.0% over the prior year, reflecting management's efforts to control these expenses. Facilities expenses accounted for 19.1% of operating expenses for the current year, as compared to 19.3% in 2004.

Management's Discussion and Analysis (Continued)

Budgetary Highlights

As required by law in the State of Michigan, the Library sets an annual operating budget for the general fund. From time to time, the budget was amended to take into account changes in circumstances during the year. Significant revenue items that were amended in 2005 included penal fines and library fines and fees. Significant expense items amended included employee benefits, utilities and capital outlay.

Capital Assets and Debt Administration

As of November 30, 2005, the Library had \$20,396,961 invested in capital assets, as detailed in Table III below:

During the year, the Library added approximately 28,000 items to the collection. It also upgraded the main library's sortation system and installed an elevated train track in the Children's area.

The Library's long-term debt consisted of \$15,500,000 in Library Building and Site Bonds, dated March 1, 2002. The debt is due in annual installments through April 1, 2027, and bears interest rates ranging from 3.63% to 5.00%. Interest payments are made semiannually. These bonds were rated AAA by Fitch Ratings and Standard & Poor's at date of issue.

Economic Factors and Next Year's Budgets and Rates

The Library considered many factors when setting the budget for fiscal year 2006, including an increase in property tax revenue due to growth in the district and a decrease in the level of expected state aid and penal fines. In total, the general fund budget for 2006 increased by approximately 3% to an estimated \$5,720,100.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the funds it receives. If you have any questions about this report or need additional information, contact the director, Larry Neal, at Clinton-Macomb Public Library, 40900 Romeo Plank Road, Clinton Township, MI 48038 or call (586) 226-5011.

Clinton-Macomb Public Library

Governmental Fund Balance Sheet / Statement of Net Assets
November 30, 2005

	Governmental Funds - Modified Accrual Basis		Statement of Net Assets
	General	Debt Service	
	Total		
	Adjustments		
	Net Assets		
Assets:			
Cash and cash equivalents	\$ 874,418	\$ 595	\$ 875,013
Certificates of deposit	200,000	-	200,000
Deposits	-	-	50,808
Library store inventory	20,967	-	20,967
Bond issue costs, net of amortization	77,422	-	77,422
Prepaid expenses	46,099	-	46,099
Interest and taxes receivable	5,230	-	5,230
Fixed assets, net of accumulated depreciation	-	-	20,396,961
Total assets	\$ 1,224,136	\$ 595	\$ 1,224,731
			21,672,500
Liabilities:			
Trade accounts payable	\$ 49,669	\$ -	\$ 49,669
Accrued wages	54,921	-	54,921
Accrued payroll taxes	4,202	-	4,202
Pension contribution payable	3,982	-	3,982
Other liabilities	6,894	-	6,894
Accrued interest payable	-	-	123,246
Bonds payable, due within one year	-	-	300,000
Bonds payable, due after one year	-	-	15,200,000
Compensated absences	-	-	124,974
Total liabilities	119,668	-	15,748,220
			15,867,888
Fund Balances/Net Assets:			
Fund balances-unreserved	-	-	-
Designated for main library building	-	-	-
Designated for self insurance	-	-	-
Designated for future major facility expenditures	-	-	-
Undesignated	1,104,468	595	(1,105,063)
Total fund balances	1,104,468	595	(1,105,063)
Total liabilities and fund balances	\$ 1,224,136	\$ 595	\$ 1,224,731
Net Assets:			
Invested in capital assets, net of related debt			4,947,769
Restricted for debt service payments			595
Unrestricted			856,248
Total net assets			\$ 5,804,612
			\$ 5,804,612

Clinton-Macomb Public Library

Statement of General Fund Revenues, Expenditures, and
Changes in Fund Balance / Statement of Activities
For the year ended November 30, 2005

	Governmental Funds - Modified Accrual Basis			Adjustments	Statement of Activities
	General	Debt Service	Total		
Revenues:					
Property taxes	\$ 4,814,479	\$ -	\$ 4,814,479	\$ -	\$ 4,814,479
Intergovernmental - State Aid	123,105	-	123,105	-	123,105
Penal fines	208,083	-	208,083	-	208,083
Library fines and fees	195,254	-	195,254	-	195,254
Library store	27,866	-	27,866	-	27,866
Interest	73,117	527	73,644	-	73,644
Contributions and donations	64,001	-	64,001	-	64,001
Miscellaneous	70,318	-	70,318	-	70,318
Total revenues	5,576,223	527	5,576,750	-	5,576,750
Expenditures:					
General government:					
Salaries and wages	1,987,292	-	1,987,292	(12,718)	1,974,574
Employee benefits	505,857	-	505,857	-	505,857
Operating supplies	69,366	-	69,366	-	69,366
Voice and data services	46,404	-	46,404	-	46,404
Library store	16,464	-	16,464	-	16,464
Miscellaneous	10,814	-	10,814	-	10,814
Insurance	47,250	-	47,250	-	47,250
Contract maintenance	58,938	-	58,938	-	58,938
Facilities maintenance	291,177	-	291,177	107	291,284
Utilities	218,655	-	218,655	-	218,655
Rent	267,092	-	267,092	-	267,092
Programs - Youth & Adult	13,292	-	13,292	-	13,292
Periodicals	18,460	-	18,460	-	18,460
Electronic subscriptions	113,710	-	113,710	-	113,710
Conferences, workshops and travel	42,426	-	42,426	-	42,426
Professional fees	110,666	1,163	111,829	-	111,829
Publicity	68,097	-	68,097	-	68,097
Capital outlay:					
Library books and materials	351,111	-	351,111	(351,111)	-
Capital outlay	71,580	-	71,580	(53,407)	18,173
Depreciation	-	-	-	2,441,331	2,441,331
Gain on sale of fixed assets	-	-	-	(84)	(84)
Debt service:					
Principal	-	300,000	300,000	(300,000)	-
Interest and fiscal charges	-	744,538	744,538	(1,688)	742,850
Total expenditures	4,308,651	1,045,701	5,354,352	1,722,430	7,076,782
Excess (deficiency) of revenues over expenditures/ change in net assets	1,267,572	(1,045,174)	222,398	(1,722,430)	(1,500,032)
Other financing sources (uses)					
Operating transfers in	-	1,045,563	1,045,563	(1,045,563)	-
Operating transfers out	(1,045,563)	-	(1,045,563)	1,045,563	-
Total other financing sources (uses)	(1,045,563)	1,045,563	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses/change in net assets	222,009	389	222,398	(1,722,430)	(1,500,032)
Fund balance/net assets, December 1, 2004	882,459	206	882,665	6,421,979	7,304,644
Fund balance/net assets, November 30, 2005	\$ 1,104,468	\$ 595	\$ 1,105,063	\$ 4,699,549	\$ 5,804,612

Clinton-Macomb Public Library

Notes to Financial Statements

November 30, 2005

1. Nature of Organization and Summary of Significant Accounting Policies

Introduction

The Clinton-Macomb Public Library (the Library) complies with accounting principles generally accepted in the United States of America as applicable to governmental units. Private sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB).

The more significant of the Library's accounting policies are described below.

Financial Reporting Entity

The Clinton-Macomb Public Library was organized by the Charter Township of Clinton and Chippewa Valley Schools and began operations May 1, 1992. The District Library agreement was amended on May 12, 1997 to include Macomb Township as a participating municipality. Subsequent to Macomb Township joining Clinton Township as a participating municipality of the Clinton-Chippewa Valley District Library, in May 1997, the name of the district library was changed to Clinton-Macomb Public Library. The Library operates under the authority of the Michigan District Library Establishment Act, Public Act 24 of 1989, as amended, and is governed by an eight-member appointed Board of Trustees. It provides resources for the informational, educational, cultural and recreational needs of its patrons.

In evaluating how to define the Library for financial reporting purposes, management has considered all potential component units. The decision to include or not include a potential component unit in the reporting entity was made by applying the criteria set forth in the accounting principles generally accepted in the United States of America, currently GASB Statement No. 14, *The Financial Reporting Entity*.

Based upon the application of those criteria, the government-wide financial statements of the Library contain all the funds controlled by the Library's Board of Trustees as no other entity meets the criteria to be considered a blended component unit or a discretely presented component of the Library.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting of the Library conforms to accounting principles generally accepted in the United States of America as applicable to governmental units.

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Clinton-Macomb Public Library

Notes to Financial Statements (Continued)

1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three components – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Fund Financial Statements

Governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources. Governmental funds are used to account for all or most of the Library's general activities, including the collection and disbursement of earmarked resources and the servicing of long-term debt.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Governmental funds and agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are both "measurable and available"). Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, interest and special assessments are susceptible to accrual. Other revenues become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Library reports the following major governmental funds:

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state distributions, grants and other intergovernmental revenues.

Clinton-Macomb Public Library

Notes to Financial Statements (Continued)

1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Debt Service Fund

This fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the Library. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Inventories and Prepaid Items

Inventories are valued at cost, on a last-in, first out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased. Certain payments to vendors reflect costs applicable to the future fiscal year and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated property and equipment are valued at their estimated fair value on the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land improvements	15-30 years
Buildings	30 years
Building components	10-30 years
Building and leasehold improvements	7-30 years
Furniture and equipment	5-15 years
Library materials	5-7 years

Clinton-Macomb Public Library

Notes to Financial Statements (Continued)

1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, if applicable, as well as issuance costs, are deferred and amortized over the term of the related debt. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the life of the bonds.

In the fund financial statements, governmental-type funds recognize bond premiums and discounts in the current period. The face amount of debt issued is reported as other financing sources in the statement of governmental fund revenues, expenditures, and changes in fund balance.

Employee Vacation and Sick Leave (Compensated Absences)

Library employees have a vested right to receive payment for unused vacation and sick leave under conditions specified in the personnel policy manual. Accruals for these liabilities are recorded as earned by employees and reported in the government-wide financial statements.

Fund Equity

In the fund financial statements, the unreserved fund balances represent the amount available for budgeting future operations. Designations of unreserved fund balances in governmental funds indicate tentative plans for use of financial resources in a future period.

Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Clinton-Macomb Public Library

Notes to Financial Statements (Continued)

2. Deposits and Investments

State statutes authorize the Library to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank, savings and loan association or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation or National Credit Union Administration, respectively. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Cash deposits and investments are carried at cost. Cash deposits and certificates of deposit of the Library are in the name of the Library at four banks.

Investments consist of two certificates of deposit with maturities greater than 90 days.

The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Library's deposits for custodial credit risk. At year end, the Library's deposit balance of \$977,069 had \$577,069 of bank deposits (checking, and savings accounts) that were uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a deposit policy for custodial credit risk of investments. The Library minimizes its risks by pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which it does business using the criteria established in the Investment Policy.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy minimizes interest rate risk by designing the portfolio with the objective of attaining a rate of return throughout the budgetary and economic cycles, commensurate with the Library's investment risk constraints and the cash flow characteristics of the portfolio.

Clinton-Macomb Public Library

Notes to Financial Statements (Continued)

2. Deposits and Investments (Continued)

Concentration of Credit Risk

The Library places no limit on the amount the Library may invest in any one issuer. The Library's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

3. Fixed Assets

A summary of fixed asset activity of the Library is as follows:

	Balance 11/30/2004	Increases	Decreases	Balance 11/30/2005
Assets not being depreciated:				
Land	\$ 512,000	\$ -	\$ -	\$ 512,000
Artwork	-	2,290	-	2,290
Other capital assets:				
Land improvements	1,408,138	5,870	-	1,414,008
Buildings and improvements	14,354,033	14,837	-	14,368,870
Leasehold improvements	1,731,065	3,281	-	1,734,346
Furniture and fixtures	2,145,954	2,692	-	2,148,646
Equipment	2,176,200	77,600	(2,724)	2,251,076
Library books and materials	4,707,085	351,111	-	5,058,196
Total	27,034,475	457,681	(2,724)	27,489,432
Accumulated depreciation	(4,651,549)	(2,441,331)	409	(7,092,471)
Net book value	\$ 22,382,926	\$ (1,983,650)	\$ (2,315)	\$ 20,396,961

4. Long Term Debt

At November 30, 2005, bonds payable consisted of the following:

	General Long- Term Debt
2002 Library Building and Site Bond (Limited Tax General Obligation), dated March 1, 2002, due in annual installments through April 1, 2027, bearing interest rates of 3.63% to 5.00%	\$15,500,000
Amount due within one year	300,000

Clinton-Macomb Public Library

Notes to Financial Statements (Continued)

4. Long Term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Balance 11/30/2004	Additions	Reductions	Balance 11/30/2005
Bonds payable	\$15,800,000	\$ -	\$ (300,000)	\$15,500,000
Other long-term liabilities				
Compensated absences	137,692	-	(12,718)	124,974
Total	\$15,937,692	\$ -	\$ (312,718)	\$15,624,974

Compensated absences is the liability to employees under the Library's vacation and sick pay policy. Under the Library's policy employees earn vacation based on length and amount of service with the Library.

Annual debt service requirements to maturity for all debt outstanding as of November 30, 2005 (excluding compensated absences) are as follows:

Years Ending November 30	Principal	Interest	Total
2006	\$ 300,000	\$ 734,040	\$ 1,034,040
2007	400,000	720,800	1,120,800
2008	400,000	705,000	1,105,000
2009	500,000	686,500	1,186,500
2010	500,000	665,250	1,165,250
2011-2015	2,900,000	2,948,200	5,848,200
2016-2020	3,700,000	2,174,350	5,874,350
2021-2025	4,600,000	1,150,000	5,750,000
2026-2027	2,200,000	110,000	2,310,000
Total	\$15,500,000	\$ 9,894,140	\$25,394,140

Interest expense of the Library for the year ended November 30, 2005 approximated \$743,000.

5. Leases

The Library entered into a 10-year non-cancelable operating lease dated May 3, 1999, for the rental of land and buildings located in the Charter Township of Clinton (South Branch). The lease requires monthly payments of \$7,025, with annual adjustments based upon the Consumer Price Index – United States. The lease carries a renewal option for two additional five-year periods. The lease requires the Library to pay for utilities and insurance.

Clinton-Macomb Public Library

Notes to Financial Statements (Continued)

5. Leases (Continued)

The Library entered into a 10-year non-cancelable operating lease dated August 11, 2000, for the rental of land and buildings located in Macomb Township (North Branch). The lease requires monthly payments of \$15,189 during the first five years and \$17,476 during the second five years. The lease requires the Library to pay for utilities and insurance.

Future minimum rental payments for each of the succeeding five fiscal years are as follows:

2006	\$ 284,869
2007	294,018
2008	294,018
2009	294,018
2010	209,718

6. Retirement Programs

Defined Contribution Plan

The Clinton-Macomb Public Library Employee Money Purchase Plan is a defined contribution plan pursuant to Section 414(h) of the Internal Revenue Code, established by the Library to provide benefits at retirement to eligible employees. The plan is administered by Nationwide Retirement Solutions. The Library is required to contribute 10% of annual compensation to the plan. The Library contributed \$152,451 to the plan for the year ended November 30, 2005.

Deferred Compensation Plan

The Library offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Library employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. There are no employer contributions required by the plan. During the year ended June 30, 1997, the law was changed to allow trusts to be created for the plan assets, thereby insulating the assets from the unit of government's general creditors. The Library's plan administrator, Nationwide Retirement Solutions, created the trust and placed the assets of the plan within the trust. As a result, the plan assets are not reported in the Library's financial statements to properly reflect that the Library does not have any fiduciary or administrative responsibility for the plan.

7. Property Taxes

The Library, as an authorized district library, has levied 1 mil for operating purposes in the Charter Township of Clinton and Macomb Township. Property taxes are collected and remitted to the Library by the townships. Property taxes are levied and become a lien on each December 1st and are due by February 14th. Property taxes are recorded as revenue in the fiscal year beginning immediately subsequent to the tax levy date of December 1st. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received, except for those received within 60 days of year-end, which are recognized as revenue as of November 30th.

Clinton-Macomb Public Library

Notes to Financial Statements (Continued)

8. Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund and the Debt Service Fund. All annual appropriations lapse at the fiscal year end. The General Fund and Debt Service Fund's appropriated budgets are prepared on a detailed line item basis. The Library does not maintain a formalized encumbrance accounting system. Budget appropriations are considered to be spent once the goods are delivered or the services are rendered.

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the July Board meeting, the Library Director submits to the Finance Committee, a proposed operating budget for the fiscal year commencing the following December 1. In July, the Finance Committee submits the proposed operating budget to the Library Board. The budget is legally adopted by a Library Board Resolution by September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at the Library's annual board meeting to obtain taxpayer comments.
3. Prior to December 1, the budget is legally adopted by a Library Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires the budget to be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the budgetary comparison schedule (accounting principles generally accepted in the United States of America) – General Fund and Debt Service Fund.
4. The Director is authorized to transfer budgeted amounts between line-items within an activity. However, the Library Board must approve any revisions that alter the total expenditures for any activity.
5. The budget as presented has been amended. Supplemental appropriations were made during the year with the last one approved prior to November 30th.

Excess Expenditures over Appropriations in Budgetary Funds

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a fund, functional and line item basis.

Clinton-Macomb Public Library

Notes to Financial Statements (Continued)

8. Stewardship, Compliance and Accountability (Continued)

During the year ended November 30, 2005, the Library incurred expenditures in excess of the amounts appropriated as follows:

Budget Item	Budget Appropriation	Actual Expenditure	Variance
General Fund:			
Operating supplies	\$ 68,700	\$ 69,366	\$ 666
Professional fees	109,400	110,666	1,266
Debt Service Fund:			
Professional fees	1,025	1,163	138

9. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Library carries commercial insurance for claims related to these losses. The Library also carries commercial insurance for other risks of loss, including employee health and accident insurance.

The Clinton-Macomb Public Library Board of Trustees has approved a self-insurance plan for the Library with regard to short-term disability insurance and unemployment compensation. At November 30, 2005, the short-term disability insurance plan and the unemployment compensation plan were funded at \$48,000.

Clinton-Macomb Public Library

Notes to Financial Statements (Continued)

10. Reconciliation of Fund Financial Statements to Government-Wide Financial Statements

Total fund balance and the net change in fund balance of the Library's governmental funds differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified Accrual Basis	\$ 1,105,063
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	20,396,961
Equipment capitalized in prior year returned to vendor for credit on future purchases	50,808
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(15,500,000)
Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the fund	(123,246)
Compensated absences are included as a liability	(124,974)
Net Assets – Full Accrual Basis	<u>\$ 5,804,612</u>
 Net Change in Fund Balance – Modified Accrual Basis	 \$ 222,398
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	404,518
Depreciation	(2,441,331)
Loss on sale of fixed assets	84
Portion of vendor credit applied against expenditures	(107)
Decrease in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	12,718
Decrease in accrued interest reported as an expenditure in the statement of activities, but not in the fund statements	1,688
Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	300,000
Net Change in Net Assets – Full Accrual Basis	<u>\$ (1,500,032)</u>

Required Supplementary Information

Clinton-Macomb Public Library

Budgetary Comparison Schedule
Year ended November 30, 2005

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	\$ 4,822,400	\$ 4,813,000	\$ 4,814,479	\$ 1,479
Intergovernmental - State Aid	123,100	123,100	123,105	5
Penal fines	135,000	208,000	208,083	83
Library fines and fees	150,000	190,400	195,254	4,854
Library store	30,000	26,200	27,866	1,666
Interest	50,000	71,100	73,117	2,017
Contributions and donations	21,000	63,600	64,001	401
Miscellaneous	46,000	69,900	70,318	418
Total revenues	5,377,500	5,565,300	5,576,223	10,923
Expenditures:				
General government:				
Salaries and wages	1,946,800	1,988,300	1,987,292	1,008
Employee benefits	569,600	506,600	505,857	743
Operating supplies	90,000	68,700	69,366	(666)
Voice and data services	54,600	49,200	46,404	2,796
Library store	31,800	17,200	16,464	736
Miscellaneous	3,000	11,600	10,814	786
Insurance	54,000	47,300	47,250	50
Contract maintenance	52,100	60,400	58,938	1,462
Facilities maintenance	248,800	297,700	291,177	6,523
Utilities	273,500	221,100	218,655	2,445
Rent	271,800	267,300	267,092	208
Programs - Youth & Adult	13,500	15,000	13,292	1,708
Periodicals	20,000	20,000	18,460	1,540
Electronic subscriptions	121,200	113,800	113,710	90
Conferences, workshops and travel	36,500	44,300	42,426	1,874
Professional fees	107,500	109,400	110,666	(1,266)
Publicity	60,000	69,600	68,097	1,503
Total general government	3,954,700	3,907,500	3,885,960	21,540
Capital outlay:				
Library books and materials	340,200	366,300	351,111	15,189
Equipment	27,000	78,100	71,580	6,520
Total capital outlay	367,200	444,400	422,691	21,709
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total debt service	-	-	-	-
Total expenditures	4,321,900	4,351,900	4,308,651	43,249
Excess (deficiency) of revenues over expenditures	1,055,600	1,213,400	1,267,572	54,172
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	(1,045,600)	(1,045,600)	(1,045,563)	37
Total other financing sources (uses)	(1,045,600)	(1,045,600)	(1,045,563)	37
Excess (deficiency) of revenues and other sources over expenditures and other uses	10,000	167,800	222,009	54,209
Fund balance, December 1, 2004	882,459	882,459	882,459	-
Fund balance, November 30, 2005	\$ 892,459	\$ 1,050,259	\$ 1,104,468	\$ 54,209

Clinton-Macomb Public Library

Budgetary Comparison Schedule
Year ended November 30, 2005

	Debt Service Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental - State Aid	-	-	-	-
Penal fines	-	-	-	-
Library fines and fees	-	-	-	-
Library store	-	-	-	-
Interest	-	-	527	527
Contributions and donations	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	-	-	527	527
Expenditures:				
General government:				
Salaries and wages	-	-	-	-
Employee benefits	-	-	-	-
Operating supplies	-	-	-	-
Voice and data services	-	-	-	-
Library store	-	-	-	-
Miscellaneous	-	-	-	-
Insurance	-	-	-	-
Contract maintenance	-	-	-	-
Facilities maintenance	-	-	-	-
Utilities	-	-	-	-
Rent	-	-	-	-
Programs - Youth & Adult	-	-	-	-
Periodicals	-	-	-	-
Electronic subscriptions	-	-	-	-
Conferences, workshops and travel	-	-	-	-
Professional fees	1,025	1,025	1,163	(138)
Publicity	-	-	-	-
Total general government	1,025	1,025	1,163	(138)
Capital outlay:				
Library books and materials	-	-	-	-
Equipment	-	-	-	-
Total capital outlay	-	-	-	-
Debt service:				
Principal	300,000	300,000	300,000	-
Interest and fiscal charges	744,537	744,537	744,538	(1)
Total debt service	1,044,537	1,044,537	1,044,538	(1)
Total expenditures	1,045,562	1,045,562	1,045,701	(139)
Excess (deficiency) of revenues over expenditures	(1,045,562)	(1,045,562)	(1,045,174)	388
Other financing sources (uses)				
Operating transfers in	1,045,562	1,045,562	1,045,563	1
Operating transfers out	-	-	-	-
Total other financing sources (uses)	1,045,562	1,045,562	1,045,563	1
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	389	389
Fund balance, December 1, 2004	206	206	206	-
Fund balance, November 30, 2005	\$ 206	\$ 206	\$ 595	\$ 389

CLINTON-MACOMB PUBLIC LIBRARY
REPORT TO THE BOARD OF TRUSTEES

April 4, 2006

Andrews Hooper & Pavlik P.L.C.
Certified Public Accountants
3201 University Drive, Suite 350
Auburn Hills, Michigan 48326



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

April 4, 2006

Board of Trustees
Clinton-Macomb Public Library
40900 Romeo Plank Road
Clinton Township, MI 48038-2955

In planning and performing our audit of the financial statements of the Clinton-Macomb Public Library for the year ended November 30, 2005, we considered the entity's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated March 1, 2006, on the financial statements of the Clinton-Macomb Public Library.

We will review the status of this comment during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal control or result in other operating efficiencies. We will be pleased to discuss this comment in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendation. Our comment is summarized as follows:

AUTHORIZATION

During our fieldwork we reviewed 17 journal entries and noted nine journal entries were not dated. We recommend that the Library's accounting personnel date all journal entries to provide for complete accounting records.

Sincerely,

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan